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SHELTER STRATEGY STATEMENT - BELIZE

A. Program Background

1. Overview

Belize, formerly British Honduras, became independent in September 1981. It is a small country in both area (8,866 sq. miles) and population (145,000) and is sparsely populated (16.4 per sq. km.) relative to the rest of the countries on the Central American land mass. Historically and demographically Belize has been more closely associated with the Caribbean islands albeit bordered by Guatemala and Mexico.

Belize is 57% urban. Belize City, the former capital with a population of slightly less than 40,000 which is 4 1/2 times larger than the next largest city, is the country's preeminent urban center. In 1961 after Hurricane Hattie struck this coastal city, the capital was moved to the new town of Belmopan 50 km inland. As of 1982 Belmopan still had only 3,000 inhabitants and remained the nation's administrative as opposed to population center. The country is divided into six geo-political districts each of which has a district capital with a population ranging from 2,400 to 8,400.

Between 1921 and 1970 the average urban growth rate was 2.6% while for rural areas it was 2.1%. During this period Belize City was growing at a rate of 2.7%. However, during the past decade (1970-1980), Belize City only experienced a net increase of 721 persons or a growth rate of .0018% per year. This low net growth is attributable to a high rate of emigration to the U.S. In the 1970-1980 period, Dangriga experienced a net loss of population while other district towns grew at a rate of 3.6% per year.

2. Economic Setting

The economy of Belize registered modest growth during 1980 and 1981. In the 1970's, the Gross Domestic Product (GDP) increased an average of 5.5 percent annually. Due to relatively high rates of inflation (15-18%), and a decline in the levels of both public and private investment, economic growth slowed to between 1-2% of DGP in the early 1980's.

Economic performance in 1980 was mixed. The economy is still largely agricultural and sugar dominates, accounting for close to 50 percent of export earnings. Despite record earnings in 1980, output is still 15 percent below the tonnage achieved in 1978 and is insufficient to meet the quota allocated by the International Sugar Agreement.

The economy is heavily dependent on imports. In 1980, imports were valued at \$140.6 million, which again exceeded total GDP. This dependency on imports makes Belize vulnerable to international levels of inflation. Increases in local wages ranging between 25-30% between 1979-81, have further contributed to domestic inflation. In 1980 total exports were valued at \$131 million, up 50 percent from 1979. This increase can be attributed to significantly higher world prices for sugar in 1980.

Emigration of trained manpower remains a serious problem for Belize. Among the factors constraining economic development is the need for increased numbers of management and technical personnel. Because of limited economic opportunities at home and the attractive wage and salary structures of more affluent neighbors, a large segment of the skilled labor force emigrates, primarily to the United States, or a number equal to the present labor force in Belize. One positive effect of this large scale emigration is the substantial sum of remittances sent to the families remaining behind. The foreign exchange picture is accordingly improved substantially: according to Belizean Government estimates in the amount of \$8 million annually.

The financial position of the public sector deteriorated somewhat in 1980. The public sector operational deficit grew from \$4.2 million in 1979 to \$8.4 million in 1980. Government borrowing, largely through the sale of treasury bills in the domestic capital market, went from \$3 million in 1979 to \$11.5 million in 1980. Outstanding public debt from external sources increased from \$28.7 million in 1979 to \$55 million in 1980.

The public sector investment program fueling the Development Plan envisions heavy reliance on external sources to finance capital expenditures. The level at which these externally funded investment inputs are programmed relative to the size and state of the Belizean economy is clearly dependent on continued receipt of predominately grant and concessional monies. Greatly increased borrowing from the domestic market would further increase the present strain on the local banking system, already experiencing very high interest rates which in part reflect the greatly increased presence of the Government in the market. Given the limitations implicit 1980-83 Economic Plan, the inevitable shifting from concessional reliance to the commercial capital markets will be a gradual one.

3. Development Activities

The small population size relative to the land area and the sparse distribution of rural settlements act as constraints to development. These factors produce high per capita costs for the delivery of both physical infrastructure (public services and facilities) and social services (institutional supports in education, health, etc.).

The nation's primary development thrust is in agriculture and in providing the basic infrastructure necessary to attract investment. Belize's 1980-83 economic plan calls for a total of \$204 million of investments (agriculture 29%, Industry 3%, Economic Infrastructure 39%, Social Infrastructure 29%). External capital requirements for these investments total \$120.5 million or 59%. As of February 1982, approximately \$89 million in external capital had been secured, \$13 million was in process of being committed. This left a shortfall of \$18 million.

4. Shelter Sector

Like the country in general, the shelter sector delivery system is still in an early stage of development. There is no formal national housing policy. The current institutional system for housing finance is virtually without funds. On the demand side of the equation, incomes, relative to the cost of construction, are low. Deep subsidization has maintained housing standards and expectations at very high levels relative to what the majority of the population can afford. Less than complete, standard housing has not yet been successfully introduced to the formal housing market.

The SSA team, which was in Belize in February 1982, indicated that Belizean officials' figures for annual housing demand of 1200 units seemed overstated. They estimated the annual need at between 700-800 units. More significantly they found that the existing housing stock was in a dire state of disrepair especially in Belize City.

The current level of housing stock is placed at approximately 26,000 units nationwide, 6,300 of which are located in Belize City. Nationwide, 80 percent of the housing stock is of wood; in Belize City this figure reaches 95 percent. Nationwide, 35 percent of all units were built before 1960; in Belize City this figure approaches 60 percent.

A combination of low incomes, a general lack of home improvement financing, periodic hurricanes and the predictable impact of high temperatures and high rainfall have produced a housing stock of generally poor quality and sorely in need of greatly expanded maintenance and upgrading.

Publicly supported housing efforts are generally deeply subsidized and the allocation of units is highly political. There are three public institutions presently involved in the shelter sector. Each is modestly staffed and their efforts are not well coordinated. Except for the Development Finance Corporation, delinquency rates are extremely high. The three public institutions in Belize which provide housing and housing finance are:

- (i) Development Finance Corporation (DFC): middle income housing;
- (ii) The Reconstruction and Development Corporation (RECONDEV): middle and low income housing; and

(iii) Housing and Planning Department: constructs low cost housing for rent or hire purchase (i.e., public housing).

These institutions satisfy approximately 25% of the nations annual shelter needs. The formal private sector produces an amount which appears to be somewhat less, though there is insufficient data to give a clear picture. The majority of shelter is produced by the informal sector.

In addition to the institutions noted above there are two private sector sources of finance for nationwide shelter activities. The first is the commercial banks which are currently lending at 18-21% but whose housing portfolio is minimal. The second is the credit unions which are limited by law to 12% interest rate ceiling and which only finance home improvement activities. It is estimated that 10-15% of their portfolios are for housing purposes. The credit union movement in Belize is large, widespread and a significant factor in the provision of credit. They are often referred to as "the poor peoples banks."

The lack of available financing for new housing construction has prompted a group of Belizeans to organize a National Building Society. This effort is still in its inceptient stages and presently relies on voluntary help for fund raising and organizational development.

B. Program Strategy and Rationale

A bilateral strategy for AID program activities in Belize has not yet been finalized. Belize, however, has been a major beneficiary of AID assistance through loans to the Caribbean Development Bank (CDB). The CDB made available to the Government of Belize (GOB) \$176,000 of AID loan funds for the construction of 196 low cost homes in the township of Ladyville and Belmopan. In addition, under the CDB's Secondary Mortgage Operation, established with AID loan assistance, the DFC has originated and sold to the CDB approximately \$1.4 million in mortgages.

In order to develop a shelter sector strategy which can become a part of the overall AID country development strategy, PRE/H sent a team of shelter experts to Belize in early 1982. The team's findings suggest that: current shelter expectations and related construction costs put the cost of new units beyond what is affordable by the majority of the population; the limited public housing which is available, is deeply subsidized; a vast supply of housing in Belize will be lost to deterioration if steps are not taken to repair and maintain existing structures; the institutional capacity of the existing shelter delivery system in Belize is weak; and credit for shelter activities is virtually nonexistent.

A shelter strategy must be based on the need of the GOB to rationalize its shelter sector delivery system and strengthen the capacity of its public and private shelter sector institutions. The objective would be to develop a shelter sector delivery system which can provide long term financing, affordable solutions, and in the long run can become self reliant. A self reliant system will require full cost recovery and coordinated public policy and program decisions which promote private sector financing and construction of shelter for all income groups.

Given the above objective and the general lack of a considered and coordinate approach to the shelter sector; the highly political nature of public sector housing activities which only produce standard housing with deep subsidies; the limited institutional capacity of existing public sector housing institutions; the high cost of new construction (90% of the materials are imported and include a 30% import tax); the general lack of available financing for shelter activities; and, the state of disrepair of the existing housing stock point to a PRE/H strategy which should:

- Provide immediate technical assistance to the GOB to help rationalize its shelter sector activities by: supporting R&D for the development of marketable, affordable shelter solutions; getting it out of the role of primary housing producer; minimizing its subsidies to housing; and clearly defining the roles of its housing related institutions.
- Support the institutional development of existing or potential private sector institutions involved in financing shelter activities. (i.e. credit unions and National Building Society);
- Encourage efforts to preserve the existing housing stock;
- Stimulate private housing construction activities through the provision of a reliable source of credit for shelter activities; and
- Encourage GOB to reconsider price restrictions on local construction materials (i.e. lumber) which presently limit the lucrative development of the quality materials required/desired for shelter activities.

1. Short term activities (3-5 years)

The strategy would include the immediate initiation of a relatively small HG program in order to stimulate the sector and to provide a reliable, interim source of financing for shelter needs. Such a loan must be complemented by substantial amounts of technical assistance in order to help strengthen and rationalize the shelter sector delivery system, assist in implementation and prepare for a second HG which could commence approximately 2 years after an initial loan.

The first HG loan would have to be channeled through existing public and private finance institutions which have been assessed to be the most capable of immediately implementing a non-subsidized program (i.e., DFC and credit unions). Due to the disrepair of much of the existing housing stock, especially in Belize City, and the fact that presently all new construction requires costs beyond what the majority of Belizeans can afford, the initial loan should be directed toward preservation of the existing housing stock through the financing of home improvements. Depending on the development of acceptable, affordable solutions and institutional development at the time of a follow-on HG, the second loan may be used to finance new units and may be implemented by private and/or public institutions, such as the Belize Building Society, which presently do not have the institutional capabilities to implement a program.

HG loan (\$000's)		TA Grant (\$000's)		TOTAL (\$000's)
<u>FY 82</u>	<u>FY 84</u>	<u>FY 82/83</u>	<u>FY 84/85</u>	
\$2,000	\$3,000	\$400	\$400	\$5,800

B. Long term activities (5-10 years)

As institutional development progresses and assuming there are no constraints to shifting shelter sector activities out of the political arena, a larger HG program focusing on expansion of the Building Society should be contemplated. Technical assistance requirements would be reduced; however, at some point in this period it may be worthwhile to direct some TA toward automation of both private and public sector housing finance portfolios.

C. Types of Projects

Initially only home improvement and expansion activities should be contemplated. Existing institutional capacities, housing construction costs and lack of present market acceptance of minimal shelter solutions preclude programs for new shelter construction. After initial TA which can assist in the design and market testing of prototypical minimal solution alternatives, consideration should be given to financing such solutions.

In general, programs should be developed on a nationwide basis. However, home improvement activities should be concentrated in Belize City where the needs are the greatest. In the same vein, program activities involving new construction should be directed away from Belize City proper where site development costs are highest, damage from storms most probable, and existing density the highest.

Initial activities must include substantial amounts of technical assistance if shelter sector objectives are to be realized. TA is needed with or without loan financing in order to develop institutional capacities and promote GOB policies which support private sector investment in the shelter sector.

D. Areas for Technical Assistance

TA will have to address several aspects of institutional, program and policy development simultaneously.

1. Project Implementation: A long term advisor will be required for effective and timely implementation of any HG project.
2. Research and Development: Short term inputs would include collaboration with the Department of Housing and Town Planning of the Ministry of Health, Housing and Cooperatives and the Reconstruction Development Corporation in the design, development, and marketing testing of alternative minimum shelter solutions.
3. Institutional Development: Short term TA will be needed to strengthen existing private and public sector institutions and to assist the newly established Belize Building Society.
4. Public Policy Development: The long term advisor and short term TA will be required to assist the GOB in developing a national housing policy which will lead to decreased subsidies and promote private sector activity in the construction and financing of shelter activities.
5. Financial Management: Short term inputs will be required to assist existing public sector institutions straighten out their existing portfolios and develop more effective loan collection techniques.
6. Special Studies: These should include studies to assess the economic and shelter related benefits of policies which provide incentives for private sector firms to supply high quality local construction materials.